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# ICPS newsletter

## Ukraine Has No Future Without Reforming Education

*In the years since Ukraine gained independence its educational system has not been producing graduates able to reform the economy, and schools are not graduating people able to work effectively under market conditions. Soviet society, as is well known, differed essentially from societies with a market economy, but today's schools here are still following old patterns.*

*Is it possible to solve the problems of education in Ukraine by means of local projects and educational development programs at the regional level—at the level of cities or oblasts? Can regional educational policy become an important element of the national system of education in Ukraine? And can Lviv assume a leading role in the implementation of such policy? Participants of the seminar on "Educational Development Strategies in Lviv" addressed these very questions*

Mr. Yuri Lukovenko, ICPS coordinator of the Educational Reform Strategies in Ukraine project, believes that one of the mistakes made in Ukrainian educational reform was that the state tried to implement educational reforms on its own, without involvement of the public or the world community, and without promoting domestic and foreign investments in education.

One of the most important trends in the world today is the changing attitude to education, to its place and role in society. Education is becoming an important factor of economic development and managing change in society. The shift from the perceiving education as a means of social security to understanding education as an investment in the future is nothing less

than revolutionary. Education thus becomes a mechanism of increasing social welfare, a factor of economic stability, and a guarantor of the security of regions, countries, and the world. Therefore, educational policy should be regarded as a field of social endeavour that affects the development and the future of other spheres of society.

At the same time, notwithstanding the fundamental change of the function of education in society, old stereotypes often predominate in the approaches to educational reform. This is particularly true for the countries of the former Soviet Union. Although the idea of the important role of education in social development is accepted at all levels, in these countries education is still regarded as a non-productive sector, and

### Last week

**Improving government service and strengthening integrity through public feedback.** As part of ICPS's Public Voice Project, a conference on "Improving Government Services to the People" was held on June 25-26 in Ternopil.

The Public Voice Project was started as a part of an anti-corruption program sponsored by the Canadian International Development Agency, the World Bank, the World Bank Institute, and other donors, with ICPS as the main partner on the Ukrainian side. The goal of this pilot project is to render assistance to cities of Ukraine in improving the quality of government services delivered to businesses and the public, and enhancing the integrity of this process.

The first step in the project implementation in Ternopil was to review service delivery processes. During April and May surveys were conducted to define public opinion of the quality of government services, to study the relationship between businesses and the city authorities, and also to understand the positions of government officials.

The purpose of the Public Voice Project's conference, which was the next step in the program, was to bring together all the interested parties—management and employees of local authorities, and representatives of businesses, community groups, and the mass media, to jointly discuss the survey results and to set reform directions. An Action Plan aimed at improving service quality was worked out and publicly adopted at the Conference. It is expected that this document will be approved by the Ternopil city authorities. Establishing a coalition of government and non-government organisations to facilitate and monitor implementation of the Action Plan was another important achievement of the Conference.

### The problem of educational reform in Ukraine

*ICPS believes that the current state of the educational system is one of the main problems in this society. There is a great gap between the ideas and/or illusions about education—in Ukrainian society as well as among donors—and the realistic capacities of education to ensure transition.*

*More than 80 percent of the civil servants surveyed in the educational sector are convinced that Ukrainian education is the same or better than in Western countries. But actually our education is not appropriate for a transition society. The decline of GDP and other economic indicators in Ukraine testifies to the low level of training of our specialists.*

*International donors believe that there is no need for technical assistance for Ukrainian education as its external quantitative parameters appear quite satisfactory. That is so if education is regarded as a sphere of social security and its effectiveness is not taken into account. But if education is considered as a mechanism for transforming society, it becomes obvious that the Ukrainian system regenerates the old society and checks rather than strengthens reforms.*

as an element of social assistance to the population.

One way of resolving the problems of educational reform in Ukraine can be to create educational development programs based on applying the capacities of local government, and then the acquired experience can be used for expansion throughout Ukraine.

Efforts to open education to external influences, to attract new sources for its reform, and to use Western experience will be much more effective at the municipal level.

Lviv is the cultural centre of Ukrainian self-determination at the European level—in different times, Lviv was part of different European monarchies and still it preserved its individuality. And the Soviet period of Lviv's history was twice

as short compared with, for example, eastern regions of Ukraine.

The Lviv municipal community already has experience in the renaissance of sovereignty and Ukrainian national and cultural heritage under conditions of Western civilisation. This city has great potential that should be used to overcome the consequences of the Soviet Communist past and to integrate Ukraine into Europe. Thus, a regional educational program developed in Lviv can be the key to reforming Ukrainian education in general.

*The seminar on "Educational Development Strategies" was held on June 22-23 in Lviv. Its organisers were the Lviv municipal rada,*

*the International Centre for Policy Studies, and the Institute of Political Technologies. Seminar participants included Mr. Vasyl Kuibida, mayor of Lviv, Mr. Ivan Vakarchuk, chancellor of the Lviv Franko State University, Mr. Levko Hlukhivsky and Mr. Yuri Kliuchkovsky, people's deputies of Ukraine, Mr. Yaroslav Pitko, deputy chief of the Lviv oblast rada, Mr. Pavlo Khobzei, chief of the board of education of the Department for Humanitarian and Social Policy of the Lviv municipal rada, Mr. Boris Chyzhevsky, senior advisor for education to the Verkhovna Rada Committee for Education, Science, and Technology, Ms. Vira Naniwska, director of ICPS, Mr. Yuri Lukovenko, deputy director of ICPS, and Mr. Volodymyr Nikitin, advisor to ICPS.*

# Market Can Overcome Non-payments in the Power Sector

***The fifth issue of the monthly journal Policy Studies will be published this week, containing a study of non-payments in Ukraine's electricity sector by ICPS economist Vitaliy Nosov. The main conclusions of the published work are presented below***

By virtue of its being a "backbone sector", the soundness of the electricity sector is almost a mirror reflection of the health of the economy as a whole. Also, inasmuch as it is an essential supplier for almost every single household or enterprise, soundness of the electricity sector is a prerequisite for the smooth operating of the rest of the economy.

Non-payments in Ukraine's power sector have reached a critical scale, threatening the reliability and integrity of the power system, while non-monetary settlements have evolved into a systemic problem. Starting back in the early 1990s, accumulating non-payments for power bills have resulted in arrears of 1.6 bn USD or over 4% of GDP. It is troublesome that, unlike its Central European counterparts, Ukraine never succeeded in breaking the trend of deteriorating payment discipline since the start of the transition in 1992. This raises questions about the adequacy of reform policy choices and implementation.

Essentially, barter payments appear to be an extension of the non-payment problem, allowing continuing power consumption by insolvent customers. With a generally negative attitude to barter as a substitute for cash, non-monetary settlements are perceived as a necessary evil against the background of universal arrears.

Non-payments usually arise either from

customer insolvency or their unwillingness to pay. While the former is mostly a function of management prudence and soundness of overall economic conditions, the latter depends on the strength of enforcement mechanisms. The wide array of causes of poor payment collections include macroeconomic and microeconomic mismanagement, deteriorated solvency of customers, rent-seeking opportunities, and legal, regulatory, and structural impediments, the source of which is found in a lack of political commitment on behalf of the Ukrainian government to put the sector on a sound financial footing. On the upstream, chronic cash deficits have translated into a lack of capacity to meet power demand. This often results in emergency demand curtailment, which is disruptive to general economic activity. At the downstream, the major impact of non-payments is the growth of technological losses due to degradation of the distribution network, caused by underinvestment.

The broader economic impact (in terms of price distortions, or wasteful use of resources) is less evident, though hardly negligible. The non-payment problem also seems to call into doubt the sustainability of the current Energorynok pseudo-market arrangement, and deters further privatization in the sector.

Solutions attempted by the Ukrainian authorities have not reversed the trend of accumulating payment arrears, for they have failed to address the roots of the problem by not altering the incentives, and have lacked consistency and coherency in implementation. Suggested general policy-level and sector-level solutions need to be guided by and founded on the commitment of Ukraine's policymakers to make the local power sector financially sound, by replacing Energorynok with a true Energomarket. In addition, the potential of micro (utilities-level) solutions for improvement of cash collections should not be ignored. Significantly, incentives for those solutions are rooted in privatization.

*If you wish to receive the Policy Studies journal regularly, please send your information to the e-mail address: [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua)*

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